

Stricken language would be deleted from present law. Underlined language would be added to present law.

1 State of Arkansas

As Enrolled: 5/1/22/97

2 81st General Assembly

# A Bill

3 Regular Session, 1997

SENATE BILL 54

4

5 By: Senators Hopkins, Argue, Bearden, Bell, Canada, Dowd, Edwards, Everett, Fitch, Gordon, Gwatney,  
6 Harriman, Hill, Hoofman, Hunter, Jeffries, Kennedy, Lewellen, Mahony, Malone, Roebuck, Ross, Smith,  
7 Todd, Walker, Walters, Webb, and Wilson

8

9 By: Representatives Wagner, Beatty, Thicksten, Capps, Cunningham, Young, Lavery, Purdom, Newman,  
10 George, Maddox, Brown, Miller, Fletcher, McKissack, McGee, Malone, Pollan, McGehee, Wilkinson,  
11 Willems, Johnson, Rorie, Simon, Broadway, Kidd, Lancaster, Sheppard, Stalnaker, Jones, Bennett, Choate,  
12 Davis, Baker, Wood, Northcutt, Simmons, Allison, Flansgin, Horn, Whorton, Cook, Hausam, Jeffress, Hall,  
13 Wren, Goodwin, Crichter, McLunkin, Hunton, Harris, French, Joe Hudson, Wallis, Teague, Bond, Shoffner,  
14 Ammons, Milum, Booker, Pappas, Walker, Courtway, Roberts, Rodgers, Angel and Curran

15

16

17

## For An Act To Be Entitled

18

"TELECOMMUNICATIONS REGULATORY REFORM ACT OF 1997."

19

20

## Subtitle

21

"TELECOMMUNICATIONS REGULATORY REFORM

22

ACT OF 1997."

23

24 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

25

26 SECTION 1. Title.

27 This act may be referred to and cited as the "Telecommunications  
28 Regulatory Reform Act of 1997".

29

30 SECTION 2. Legislative Findings.

31 It is the intent of the General Assembly in enacting this Act to:

32 (1) Provide for a system of regulation of telecommunications services,  
33 consistent with the Federal Act, that assists in implementing the national  
34 policy of opening the telecommunications market to competition on fair and  
35 equal terms, modifies outdated regulation, eliminates unnecessary regulation,  
36 and preserves and advances universal service.

1       (2) Recognize that a telecommunications provider that serves high cost  
2 rural areas or exchanges faces unique circumstances that require special  
3 consideration and funding to assist in preserving and promoting universal  
4 service.

5       (3) Recognize differences between the small and large incumbent local  
6 exchange carriers, that there are customer-owned telephone cooperatives and  
7 small locally-owned investor companies, and that it is appropriate to provide  
8 incentives and regulatory flexibility to allow incumbent local exchange  
9 carriers that serve the rural areas to provide existing services and to  
10 introduce new technology and new services in a prompt, efficient and  
11 economical manner. The General Assembly finds that the Commission, when  
12 promulgating rules and regulations, should take into consideration the  
13 differences in operating conditions in the large and small incumbent local  
14 exchange carriers and the burdens placed on small carriers because of  
15 regulation.

16  
17       SECTION 3. Definitions.

18       As used in this Act:

19       (1) "Access line" means communications facility extending from a  
20 customer's premises to a serving central office comprising a subscriber line  
21 and, if necessary, a trunk facility.

22       (2) "Affiliate" means any entity that, directly or indirectly, owns or  
23 controls, is owned or controlled by, or which is under common ownership or  
24 control with, another entity. Owns or controls, for the purpose of this  
25 definition means holding at least a majority of the outstanding voting power.

26       (3) "Arkansas IntraLATA Toll Pool" means the unincorporated organization  
27 of the Arkansas incumbent local exchange carriers, approved by the Commission,  
28 whose purpose is to redistribute the pooled revenues from intraLATA toll  
29 telephone service.

30       (4) "Arkansas Intrastate Carrier Common Line Pool" means the  
31 unincorporated organization of the providers of Arkansas telecommunications  
32 services, authorized by the Commission, whose purpose is to manage billing,  
33 collection, and distribution of the incumbent local exchange carrier's intrastate  
34 toll common line service revenue requirements.

35       (5) "Basic local exchange service" means the service provided to the  
36 premises of residential or business customers composed of the following:

1 (a) voice grade access to the public switched network, with  
2 ability to place and receive calls,

3 (b) touch tone service availability,

4 (c) flat rate residential local service and business local  
5 service,

6 (d) access to emergency services (911/E911) where provided by  
7 local authorities,

8 (e) access to basic operator services,

9 (f) a standard white page directory listing,

10 (g) access to basic local directory assistance,

11 (h) access to long distance toll service providers, and

12 (i) the minimum service quality as established and required by  
13 the Commission on the effective date of this Act.

14 (6) "Commercial mobile service" means cellular, Personal  
15 Communications Systems and any service regulated pursuant to Part 20 of the  
16 rules and regulations of the FCC (47 CFR Part 20) or any successor provisions.

17 (7) "Commission" means the Arkansas Public Service Commission.

18 (8) "Competing local exchange carrier" or "CLEC" means a local exchange  
19 carrier that is not an incumbent local exchange carrier.

20 (9) "Electing company" means a local exchange carrier that elects to be  
21 regulated pursuant to Sections 6 through Section 8 of this Act.

22 (10) "Eligible telecommunications carrier" means the local exchange  
23 carrier determined in accordance with Section 5 .

24 (11) "Embedded investment" means the amount of investment in telephone  
25 plant that has already been made by an incumbent local exchange carrier as of  
26 the effective date of this act.

27 (12) "FCC" means the Federal Communications Commission.

28 (13) "Facilities" means any of the physical elements of the telephone  
29 plant that are needed to provide or support telecommunications services,  
30 including switching systems, cables, fiber optic, and microwave radio  
31 transmission systems, measuring equipment, billing equipment, operating  
32 systems, billing systems, ordering systems, and all other equipment and  
33 systems that a telecommunications service provider uses to provide or support  
34 telecommunications services.

35 (14) "Federal act" means the Communications Act of 1934, as amended.

36 (15) "Government entity" includes all Arkansas state agencies,

1 commissions, boards, authorities, and all Arkansas public educational entities  
2 (including school districts), and political subdivisions (including  
3 incorporated cities and towns and all institutions, agencies or  
4 instrumentalities of municipalities) and county governments.

5 (16) "Incumbent local exchange carrier" means, with respect to a local  
6 exchange area, a local exchange carrier, including successors and assigns,  
7 that is certified by the Commission and was providing basic local exchange  
8 service on February 8, 1996.

9 (17) "Interstate access charge pools" means the system, currently  
10 administered by the National Exchange Carriers Association, wherein  
11 participating local exchange carriers pool billed interstate access revenues.

12 (18) "Local exchange area" means the geographic area, approved by the  
13 Commission, encompassing the area within which a local exchange carrier is  
14 authorized to provide basic local exchange services and switched access  
15 services.

16 (19) "Local exchange carrier" means a telecommunications provider of  
17 basic local exchange service and switched access service. Such term does not  
18 include commercial mobile service providers.

19 (20) "Network element" means a facility or equipment used in the  
20 provision of a telecommunications service. Such term also includes features,  
21 functions, and capabilities that are provided by means of such facility or  
22 equipment, including subscriber numbers, databases, signaling systems, and  
23 information sufficient for billing and collection or used in the transmission,  
24 routing, or other provision of a telecommunications service.

25 (21) "Resale" means the purchase of services by one local exchange  
26 carrier from another local exchange carrier for the purpose of reselling those  
27 services directly or indirectly to an end-user customer.

28 (22) "Rural telephone company" means a local exchange carrier defined as  
29 a rural telephone company in the Federal Act as of the effective date of this  
30 act.

31 (23) "Switched access service" means the provision of communications  
32 between a customer premise and an interexchange carrier's point of  
33 interconnection with a local exchange carrier's network for the completion of  
34 end user calls to the public switched network for the origination or  
35 termination of interexchange long distance traffic.

36 (24) "Telecommunications provider" means any person, firm, partnership,

1 corporation, association, or other entity that offers telecommunications  
2 services to the public for compensation.

3 (25) "Telecommunications services" means the offering to the public for  
4 compensation the transmission of voice, data, or other electronic information  
5 at any frequency over any part of the electromagnetic spectrum,  
6 notwithstanding any other use of the associated facilities. Such term does  
7 not include radio and television broadcast or distribution services, or the  
8 provision or publishing of yellow pages, regardless of the entity providing  
9 such services, or services to the extent that such services are used in  
10 connection with the operation of an electric utility system owned by a  
11 government entity.

12 (26) "Tier One Company" means any incumbent local exchange carrier  
13 that, together with its Arkansas affiliates that are also incumbent local  
14 exchange carriers, provides basic local exchange services to greater than one  
15 hundred fifty thousand (150,000) access lines in the State of Arkansas on the  
16 effective date of this Act. Changes in designation of an incumbent local  
17 exchange carrier, or portions thereof, as a Tier One Company or non-Tier One  
18 Company may be effected by prior approval from the Commission pursuant to  
19 Section 11(4).

20 (27) "Universal service" means those telecommunications services that  
21 are defined and listed in the definition of basic local exchange service until  
22 changed by the Commission pursuant to Section 4(e)(3) of this Act.

23  
24 SECTION 4. Preservation and Promotion of Universal Service.

25 (a) The Arkansas Universal Service Fund (AUSF) is established by this  
26 Section in order to promote and assure the availability of universal service  
27 at rates that are reasonable and affordable, and to provide for reasonably  
28 comparable services and rates between rural and urban areas. The AUSF will  
29 provide funding to eligible telecommunications carriers that provide basic  
30 local exchange services over facilities owned by the eligible  
31 telecommunications carrier. The AUSF shall be designed to provide  
32 predictable, sufficient, and sustainable funding to eligible  
33 telecommunications carriers serving rural or high cost areas of the State.

34 (b) The Arkansas Universal Service Fund is to provide a mechanism to  
35 restructure the present system of telecommunication service rates in the State  
36 as provided herein, and all telecommunications providers, except as prohibited

1 by federal law, shall be charged for the direct and indirect value inherent in  
2 the obtaining and preserving of reasonable and comparable access to  
3 telecommunications services in the rural or high cost areas. The value and  
4 utility of access to and interconnection with the public switched network will  
5 be lessened if the rural or high cost areas do not have comparable access and  
6 subscriberhip. This AUSF charge for all telecommunications providers shall  
7 be proportionate to each provider's Arkansas intrastate retail  
8 telecommunications service revenues. In that the customers of the  
9 telecommunications providers that would pay the AUSF charge receive the  
10 benefits of a universal network, such telecommunications providers may  
11 surcharge their customers to recover such AUSF charges paid by the  
12 telecommunications provider. Therefore, the AUSF charge is not a tax, and is  
13 not affected by state laws governing taxation.

14 (c) The Commission shall delegate to a trustee (the "administrator") the  
15 administration, collection, and distribution of the AUSF in accordance with  
16 the rules and procedures established by the Commission and consistent with  
17 this Act. The administrator shall enforce and implement all rules and  
18 directives governing the funding, collection, and eligibility for the AUSF.  
19 Within sixty days after receipt of a request for AUSF funds, the administrator  
20 shall review and determine the accuracy and appropriateness of the request and  
21 advise the entity requesting such funds of his determination. The affected  
22 parties shall have thirty days to request reconsideration by the Commission of  
23 the administrator's determination and the Commission shall after notice and  
24 hearing, if requested, issue its opinion on the reconsideration within thirty  
25 days after the request of reconsideration. Persons aggrieved by the  
26 Commission's opinion shall have the right to appeal such opinion in accordance  
27 with law.

28 (d) The AUSF administrator shall periodically establish and notify each  
29 telecommunications provider of the AUSF charge levels required to be paid by  
30 the telecommunications provider. Any telecommunications provider that fails,  
31 without just cause, to pay the AUSF charge that is due and payable pursuant to  
32 this section shall, after notice and opportunity for hearing, have its  
33 authority to do business as a telecommunications provider in the State of  
34 Arkansas revoked by the Commission. The AUSF charge shall not be subject to  
35 any state or local tax or franchise fees. The Commission is authorized to  
36 increase the AUSF charge by those amounts necessary to recover the cost of

1 administration of the AUSF.

2 (e) The Commission shall, after reasonable notice and hearing,  
3 establish rules and procedures necessary to implement the AUSF. The  
4 Commission shall implement the AUSF and make AUSF funds available to eligible  
5 telecommunications carriers no later than 90 days following the later of (i)  
6 the effective date of this Act, or (ii) the effective date of an FCC order  
7 pursuant to Section 254 of the Federal Act (47 USC 254), that approves,  
8 establishes or modifies interstate universal service funding. The Commission  
9 shall not, prior to the implementation and availability of funds from the  
10 AUSF, require any local exchange carrier to reduce rates for intrastate  
11 switched access services or require any local exchange carrier to reduce its  
12 net revenue received from the Arkansas IntraLATA Toll Pool (AITP). In  
13 establishing and implementing the AUSF, the Commission shall adhere to the  
14 following instructions and guidelines:

15 (1) AUSF funding shall be provided directly to eligible  
16 telecommunications carriers.

17 (2) The Commission may, after reasonable notice and hearing,  
18 revise the list of universal services, identified in Section 3 of this Act,  
19 that may be supported by the AUSF to establish and maintain end user rates for  
20 universal services that are reasonably comparable between urban and rural  
21 areas, or to reflect changes in the type and quality of telecommunications  
22 services considered essential by the public, as evidenced, for example, by  
23 those telecommunication services that are purchased and used by a majority of  
24 single line urban customers. The Commission shall determine and approve AUSF  
25 funding to eligible telecommunications carriers to recover the cost of  
26 additions or revisions to the universal service list concurrent with any such  
27 revisions to the list of universal services identified in Section 3 of this  
28 Act.

29 (3) If the Commission establishes or utilizes a minimum or  
30 threshold universal service rate (threshold rate), for the purpose of  
31 determining the amount of AUSF that an eligible telecommunications carrier may  
32 receive, the Commission shall adhere to the following requirements:

33 (A) A rate case proceeding or earnings investigation or analysis  
34 shall not be required or conducted in connection with the determination or  
35 implementation of increases in universal service rates associated with  
36 Commission use of a threshold rate, and the increases shall not be included in

1 the calculation of the basic local exchange service rate increase limits  
2 specified in Section 7 and Section 12.

3 (B) The Commission may not require a reduction in universal  
4 service rates to a threshold rate unless any associated decrease in revenues  
5 are allowed to be concurrently recovered from the AUSF.

6 (4)(A) In the event of an FCC order, rule or policy, pursuant to  
7 Section 254(a)(2) of the Federal Act, (47 USC 254(a)(2)) the effect of which  
8 is to change the federal universal service fund revenues of an incumbent local  
9 exchange carrier, the Commission shall either increase the rates for basic  
10 local exchange service or increase the incumbent local exchange carrier's  
11 recovery from the AUSF or a combination thereof to replace the reasonably  
12 projected change in revenues. In determining whether to increase basic local  
13 exchange service rates or increase AUSF for a Tier One Company pursuant to  
14 this Section, the Commission shall take into account that company's rates and  
15 consider whether such rates are below the statewide average.

16 (B) Any rural telephone company, excluding Tier One Companies,  
17 that, as a result of changes caused by new or existing federal or state  
18 regulatory or statutory directives, experiences a change in intrastate or  
19 interstate switched access services revenues, or in net revenue received from  
20 the intrastate Carrier Common Line Pool, interstate access charge pools, or  
21 the Arkansas IntraLATA Toll Pool, shall be allowed to recover such reductions  
22 from the AUSF or through modifications in rates applicable to basic local  
23 exchange service. The recovered amounts shall be limited to the net reduction  
24 in revenues from all sources of support listed in paragraphs (e)(4)(A) and  
25 (e)(4)(B) of this Section.

26 (C) In connection with the receipt of AUSF funds for these  
27 changes referred to in paragraph (e)(4)(A) or (e)(4)(B) of this Section, such  
28 shall not be conditioned upon any rate case or earnings investigation by the  
29 Commission. The AUSF administrator shall verify the calculations and accuracy  
30 of the net revenue reductions, based on a comparison between (i) the total  
31 annual revenues received from these sources by the eligible telecommunications  
32 carrier during the most recent twelve months preceding the required regulatory  
33 or statutory changes, and (ii) a reasonable projection of total test year  
34 annual revenue after such changes are implemented.

35 (D) Except as provided in this paragraph, the intrastate Carrier  
36 Common Line (CCL) Pool charges shall continue as effective on December 31,



1 1996. The Commission is authorized to develop and implement, commencing three  
 2 (3) years after the effective date of this Act, a phase-in reduction of  
 3 intrastate CCL pool charges until such charges are equivalent to the  
 4 interstate CCL charges. Any reduction of intrastate CCL pool charges of  
 5 incumbent local exchange carriers ordered by the Commission shall provide for  
 6 concurrent recovery of such revenue loss from the AUSF, basic local exchange  
 7 rates, or a combination thereof.

8 (5) All eligible telecommunications carriers may request high  
 9 cost funding from the AUSF as necessary in the future to maintain rates for  
 10 universal services that are reasonable, affordable, and comparable between  
 11 urban and rural areas. Except as otherwise provided in this Act, such funding  
 12 shall be based on all net investment, including embedded investment, and  
 13 expenses incurred by the eligible telecommunications carriers in the provision  
 14 of universal service. High cost funding shall be provided to eligible  
 15 telecommunications carriers as needed for the following: (A) investments and  
 16 expenses required to provide, maintain, and support universal services (B)  
 17 infrastructure expenditures in response to facility or service requirements  
 18 established by any legislative, regulatory, judicial authority, or  
 19 governmental entity, and (C) for other purposes deemed necessary by the  
 20 Commission to preserve and advance the public education and welfare.

21 (6) In identifying and measuring the costs of providing universal  
 22 services, exclusively for the purpose of determining high cost funding levels  
 23 under paragraph (e)(6) of this Section, eligible telecommunications carriers  
 24 shall have the following options:

25 (A) The eligible telecommunications carrier may utilize  
 26 traditional rate case methods and procedures to identify universal service  
 27 revenue requirements and a residual AUSF funding requirement;

28 (B) The eligible telecommunications carrier may identify high cost  
 29 areas within its local exchange area, such area being no smaller than a single  
 30 exchange or wire center, and perform a fully distributed allocation of cost  
 31 and identification of associated revenue in order to quantify funding needs  
 32 for such areas; or

33 (C) The Commission shall adopt reasonable cost proxies that may  
 34 be used by an eligible telecommunications carrier for this purpose.

35 (7) In calculating revenue requirements only for the purpose of  
 36 establishing high cost funding needs from the AUSF the Commission shall not

1 fix depreciation rates; however, the Commission may make reasonable  
2 adjustments to depreciation expense if an eligible telecommunications  
3 carrier's composite depreciation annual accrual rate is greater than the  
4 weighted average of composite rates for similar plant and equipment of all  
5 other telecommunications providers providing comparable services in the State.  
6 In such case, the Commission may adjust depreciation expenses of the eligible  
7 telecommunications carrier to levels that would not exceed 15% above a  
8 composite accrual rate comparable to the statewide weighted average.

9 (f) On or within thirty days following the fifth anniversary of the  
10 effective date of this Act, the Commission and the AUSF administrator shall  
11 complete and deliver a report on the status and performance of the AUSF to the  
12 Legislative Council.

13 (g) The current Arkansas Universal Telephone Service Fund established  
14 pursuant to Arkansas Code Annotated Sections 23-17-301 through 23-17-307 will  
15 continue to exist until the AUSF is funded and operational. At that time any  
16 funds remaining in the current fund will be transferred to the AUSF and the  
17 current fund will no longer be operational.

18

19 SECTION 5. Eligible Telecommunications Carrier.

20 (a) The incumbent local exchange carrier, its successors and assigns,  
21 which owns, maintains, and provides facilities for universal service within a  
22 local exchange area upon the effective date of this Act, shall be the eligible  
23 telecommunications carrier within such local exchange area.

24 (b) Where the incumbent local exchange carrier receives AUSF support,  
25 except in areas served by rural telephone companies, the Commission,  
26 consistent with Section 214(e)(2) of the Federal Act (47 USC 214(e)(2)), after  
27 reasonable notice and hearing, may designate other telecommunications  
28 providers to be eligible for high cost support pursuant to Section 4 under the  
29 following conditions:

30 (1) The other telecommunications provider accepts the responsibility  
31 to provide service to all customers in an incumbent local exchange carrier's  
32 local exchange area using its own facilities or a combination of its own  
33 facilities and resale of another carrier's services. High cost support under  
34 this Section will not begin until the telecommunications provider has  
35 facilities in place and offers to serve all customers in its service area;

36 (2) The telecommunications provider may only receive funding for the

1 portion of its facilities that it owns and maintains;

2 (3) The telecommunications provider will not receive AUSF funding at a  
3 level higher than the level of funding received by the incumbent local  
4 exchange carrier in the same area;

5 (4) The telecommunications provider advertises the availability and  
6 the charges of such services, using media of general distribution; and

7 (5) It is determined by the Commission that the designation is in the  
8 public interest.

9 (c) In exchanges or wire centers where the Commission has designated  
10 more than one eligible telecommunications carrier, the Commission shall permit  
11 a local exchange carrier to relinquish its designation as an eligible  
12 telecommunications carrier, consistent with Section 214(e)(4) of the Federal  
13 Act (47 USC 214(e)(4)), upon a finding that at least one eligible  
14 telecommunications carrier will continue to serve the area.

15 (d) For the entire area served by a rural telephone company, excluding  
16 Tier One Companies, for the purpose of the AUSF and the federal universal  
17 service fund, there shall be only one eligible telecommunications carrier  
18 which shall be the incumbent local exchange carrier that is a rural telephone  
19 company. The rural telephone company may elect to waive its right to be the  
20 only eligible telecommunications carrier within the local exchange area by  
21 filing notice with the Commission. If there is more than one eligible  
22 telecommunications carrier, an eligible telecommunications carrier may  
23 petition the Commission and be granted relief from designation as an eligible  
24 telecommunications carrier.

25 (e) An eligible telecommunications carrier may use commercial mobile  
26 services to provide universal services.

27

28 SECTION 6. Electing Companies.

29 (a) Any incumbent local exchange carrier may elect to have the rates,  
30 terms, and conditions for its telecommunications services determined pursuant  
31 to the provisions of this Section.

32 (b) An incumbent local exchange carrier shall file a notice of its  
33 intent with the Commission to be an electing company and to be regulated  
34 pursuant to Sections 6 through Section 8.

35 (c) Upon such a filing, all rates, terms, and conditions for the  
36 services provided by that incumbent local exchange carrier contained in the

1 tariffs and end-user contracts that were in effect on the date twelve months  
 2 prior to the date of election under this Section shall be deemed just and  
 3 reasonable. However, nothing herein shall restrict any customer's right to  
 4 complain to the Commission regarding quality of service or the Commission's  
 5 right to enforce any quality of service rules and standards which are equally  
 6 imposed on all telecommunications providers.

7 (d) A rural telephone company, excluding Tier One Companies, which  
 8 elects to be regulated pursuant to this Section may terminate that election by  
 9 filing a notice with the Commission. Upon terminating that election, the  
 10 rural telephone company may not thereafter, for a period of five years from  
 11 date of the termination notice under this paragraph, elect to be regulated  
 12 under this Section.

13  
 14 SECTION 7. Regulation of Rates for Basic Local Exchange Service and  
 15 Switched Access Service of Electing Companies.

16 (a) The rates for basic local exchange service and switched access  
 17 services that were in effect in the date twelve months prior to the date of  
 18 filing of a notice of election by a local exchange carrier pursuant to Section  
 19 6 shall be the maximum that such electing local exchange carrier may charge  
 20 for such services for a period of three years after the date of filing,  
 21 excluding rate increases ordered by the Commission pursuant to Section 4. An  
 22 electing company may decrease or, subsequent to a decrease, increase up to the  
 23 rate that was effective at the time of election pursuant to this Section. Such  
 24 rate changes shall be effective immediately, without Commission approval, by  
 25 filing a tariff or notice with the Commission.

26 (b) After the expiration of such three year period, the rates for basic  
 27 local exchange services and switched access services, excluding the intrastate  
 28 carrier common line charge, may be adjusted by the electing company filing a  
 29 price list with the Commission, as long as such rates remain at or below the  
 30 inflation-based rate cap. Inflation shall be measured by the year-over-year  
 31 percent change in the gross domestic product price index (GDP-PI) calculated  
 32 by the U.S. Department of Commerce, or any successor to such index. The  
 33 electing company is authorized to adjust the rate cap for each basic local  
 34 exchange service and switched access service by seventy-five percent of this  
 35 inflation measure, adjusted for exogenous changes specified in paragraph (e)  
 36 of this Section, and excluding rate increases ordered by the Commission

1 pursuant to Section 4. The rate cap may only be adjusted once each twelve  
2 months beginning at the expiration of the three year period after the date of  
3 initial filing to be regulated pursuant to Sections 6 through 8.

4 (c) As long as an electing company is in compliance with paragraphs (a)  
5 and (b) of this Section, such rates are deemed just and reasonable.

6 (d) Notwithstanding the provisions of this Section, if, at any time  
7 following the three year anniversary of the date of election pursuant to this  
8 Section, another telecommunications provider is providing basic local exchange  
9 service or switched access service within an electing company's local exchange  
10 area, the electing company may, within any exchange of the electing company in  
11 which another telecommunications provider is providing these services,  
12 commence determining its rates for basic local exchange service and switched  
13 access services in the same manner that it determines its rates for services  
14 other than basic local exchange service and switched access service, pursuant  
15 to Section 8(c).

16 (e) For purposes of this Section, the term exogenous change shall mean a  
17 cumulative impact on a local exchange carrier's intrastate regulated revenue,  
18 expenses or investment of more than three percent over a twelve month period,  
19 that is attributable to changes in federal, state, or local government  
20 mandates, rules, regulations or statutes.

#### 21 22 SECTION 8. Regulatory Framework for Electing Companies.

23 (a) The earnings of an electing company shall not be subject to rate of  
24 return or rate base monitoring or regulation, and the Commission shall not  
25 consider rate of return, rate base, or the earnings of an electing company in  
26 connection with rate changes made pursuant to this Section or Section 7.

27 (b) An electing company is authorized to determine and account for its  
28 investments, revenues and expenses, including depreciation expenses, pursuant  
29 to generally accepted accounting principles.

30 (c) An electing company may increase or decrease its rates for  
31 telecommunications services other than basic local exchange service and  
32 switched access services and establish rates for new services by filing a  
33 tariff or a price list with the Commission. Such rates shall not require  
34 Commission approval. The tariff or price list shall be effective upon filing  
35 or at such future time as the electing company shall designate. So long as  
36 rates for services are in accordance with this Section and Section 7, such

1 rates are deemed just and reasonable. Any service that is not a  
2 telecommunications service is not subject to Commission regulation, and rates  
3 for such services need not be filed with the Commission.

4 (d) An electing company may package any of its services with any other  
5 service it or its affiliates offer, with or without a discount, provided that  
6 services whose rates are capped under Section 7 may be purchased separately at  
7 the rate which is capped in accordance with that Section.

8  
9 SECTION 9. Authorization of Competing Local Exchange Carriers.

10 (a) Consistent with the Federal Act and the provisions of Section 10,  
11 the Commission is authorized to grant certificates of convenience and  
12 necessity to telecommunications providers authorizing them to provide basic  
13 local exchange service and/or switched access service to an incumbent local  
14 exchange carrier's local exchange area if and to the extent that such  
15 applications otherwise comply with state law, designate the geographic areas  
16 proposed to be served by such applicants, and the applicants demonstrate they  
17 possess the financial, technical and managerial capacity to provide such  
18 competing services. Competing local exchange carriers shall be required to  
19 maintain a current tariff or price list with the Commission, and to make  
20 prices and terms of service available for public inspection. Retail prices of  
21 competing local exchange carriers shall not require prior review or approval  
22 by the Commission.

23 (b) A government entity may not provide, directly or indirectly, basic  
24 local exchange service. After reasonable notice to the public and public  
25 hearing, a government entity owning an electric utility system or television  
26 signal distribution system may make any telecommunications capacity or  
27 associated facilities which it now owns, or may hereafter acquire, available  
28 to the public upon such terms and conditions as may be established by its  
29 governing authority, except such government entity may not use such  
30 telecommunications capacity or facilities to provide, directly or indirectly,  
31 basic local exchange service. Any restriction contained in this paragraph  
32 shall not be applicable to the provision of telecommunications services or  
33 facilities to the extent used solely for 911, E911, other emergency services,  
34 educational or medical purposes, or for the provision of telecommunications  
35 services or facilities by an educational institution to its students.

36 (c) A government entity which operates an electric utility system may

1 deny any telecommunications provider access to its electric utility poles,  
 2 ducts, conduits, or rights-of-way, on a nondiscriminatory basis where there is  
 3 insufficient capacity and for reasons of safety, reliability, and generally  
 4 applicable engineering purposes.

5 (d) Except to the extent required by the Federal Act and this Act, the  
 6 Commission shall not require an incumbent local exchange carrier to negotiate  
 7 resale of its retail telecommunications services, to provide interconnection,  
 8 or to sell unbundled network elements to a competing local exchange carrier  
 9 for the purpose of allowing such competing local exchange carrier to compete  
 10 with the incumbent local exchange carrier in the provision of basic local  
 11 exchange service. Promotional prices, service packages, trial offerings, or  
 12 temporary discounts offered by the local exchange carrier to its end-user  
 13 customers are not required to be available for resale.

14 (e) The prices for unbundled network elements shall include the actual  
 15 costs, including an allocation of joint and common costs and a reasonable  
 16 profit.

17 (f) As provided in Sections 251 and 252 of the Federal Act (47 USC 251  
 18 and 252), the Commission's authority with respect to interconnection, resale,  
 19 and unbundling is limited to the terms, conditions and agreements pursuant to  
 20 which an incumbent local exchange carrier will provide interconnection,  
 21 resale, or unbundling to a CLEC for the purpose of the CLEC competing with the  
 22 incumbent local exchange carrier in the provision of telecommunications  
 23 services to end-user customers.

24 (g) The Commission shall approve, as permitted by the Federal Act,  
 25 resale restrictions which prohibit resellers from purchasing retail local  
 26 exchange services offered by a local exchange carrier to residential customers  
 27 and reselling those retail services to nonresidential customers, or  
 28 aggregating the usage of multiple customers on resold local exchange services,  
 29 or any other reasonable limitation on resale to the extent permitted by the  
 30 Federal Act. The wholesale rate of any existing retail telecommunications  
 31 services provided by local exchange carriers that are not exempt from Section  
 32 251(c) of the Federal Act (47 USC 251(c)) and that are being sold for the  
 33 purpose of resale, shall be the retail rate of the service less any net  
 34 avoided costs due to the resale. The net avoided costs shall be calculated as  
 35 the total of the costs that will not be incurred by the local exchange carrier  
 36 due to its selling the service for resale less any additional costs that will

be incurred as a result of selling the service for the purpose of resale.

(h) Incumbent local exchange carriers shall provide CLECs, at reasonable rates, nondiscriminatory access to operator services, directory listings and assistance, and 911 service only to the extent required in the Federal Act.

(i) The Commission shall approve any negotiated interconnection agreement or statement of generally available terms filed pursuant to the Federal Act unless it is shown by clear and convincing evidence that the agreement or statement does not meet the minimum requirements of Section 251 of the Federal Act (47 USC 251). In no event shall the Commission impose any interconnection requirements that go beyond those requirements imposed by the Federal Act or any interconnection regulations or standards promulgated under the Federal Act.

(j) In the event the Commission is requested to arbitrate any open issues pursuant to Section 252 of the Federal Act (47 USC 252), the parties to the arbitration proceeding shall be limited to the persons or entities negotiating the agreement.

#### SECTION 10. Competing Local Exchange Carriers in Service Areas of Rural Telephone Companies.

(a) A rural telephone company shall not have any duty to negotiate any other telecommunications provider of interconnection with the rural telephone company's network as provided by Section 251(c) and Section 252 of the Federal Act (47 USC 251(c) and 252), including access to its network elements on an unbundled basis, resale of any telecommunications service that such rural telephone company provides at retail to subscribers, or physical collocation, unless and until a telecommunications provider has made a bona fide request to the rural telephone company for such services, and the Commission has determined, in accordance with the Federal Act, that the rural telephone company must fulfill such request.

(b) With regard to a rural telephone company that is not also a Tier One Company, the Commission may only determine that the rural telephone company must fulfill such a request if, after reasonable notice and hearing, it is established by clear and convincing evidence that

- (1) the request is not unduly economically burdensome;
- (2) the request is technically feasible; and



1           (3) the request is consistent with the protection of universal  
2 service and the public interest, convenience, and necessity.

3           (c) The Commission shall not conclude that clear and convincing evidence  
4 exists, as required in paragraph (b) of this Section, unless the Commission  
5 has, among other relevant matters, concluded that granting the requested  
6 relief will not result in significant adverse impact on any of the following:

7                 (1) The customers of the incumbent local exchange carrier serving  
8 the area;

9                 (2) The incumbent local exchange carrier's continuing ability to  
10 provide its customers adequate service at reasonable rates;

11                (3) The incumbent local exchange carrier's ability to continue to  
12 meet eligible carrier obligations;

13                (4) Statewide average toll rates;

14                (5) Customers cost of telephone service;

15                (6) The goals of universal service;

16                (7) The quality of service provided to customers;

17                (8) The incumbent local exchange carrier's ability to attract  
18 capital and incur debt at reasonable rates and the ability to sustain  
19 sufficient revenue stream to pay existing debt;

20                (9) The ability of the exchange to support more than one local  
21 exchange carrier; and

22                (10) The interest of all ratepayers.

23           (d) If no order granting the request is entered by the Commission  
24 within 120 days after notice of such request has been filed, the request is  
25 denied.

26  
27           SECTION 11. Regulatory Reform.

28           (a) Regarding the earnings, rates of return, or rate base calculation of  
29 any electing company, any incumbent local exchange carrier that has filed  
30 notice in accordance with Section 12, or any competing local exchange carrier,  
31 and provided that all such companies and carriers otherwise comply with the  
32 applicable ratemaking provisions of this Act, the Commission shall not:

33                (1) require the filing of any financial report, statement, or other  
34 document for the purpose of reviewing, monitoring, or regulating rate base,  
35 earnings, or rates of return, or

36                (2) conduct any investigation of rate base, earnings, or rates of

1 return.

2 (b) Notwithstanding the provisions of this Act, a rate group  
3 reclassification of an exchange from one rate group to another occurring as a  
4 result of access line growth or loss of exchange access arrangements shall be  
5 allowed by the Commission on request of a local exchange carrier.

6 (c) Consistent with the policy of telecommunications competition that is  
7 implemented with this Act, other than the Commission's promulgation of rules,  
8 and regulations required by this Act, the Commission shall promulgate no new  
9 rule or regulation that increases regulatory burdens on telecommunications  
10 service providers, except upon a showing that the benefits of such rule or  
11 regulation are clear and demonstrable and substantially exceed the cost of  
12 compliance by the affected telecommunications service providers.

13 (d) Not later than 180 days after the effective date of this Act, the  
14 Commission shall conduct a rule making proceeding to identify and repeal all  
15 rules and regulations relating to the provision of telecommunications service  
16 which are inconsistent with, have been rendered unnecessary by, or have been  
17 superseded by either this Act or the Federal Act.

18 (e) Not later than 180 days after the effective date of this Act, the  
19 Commission shall revise its rules so that they apply, except as expressly  
20 provided in this Act, equally to all providers of basic local exchange  
21 service. All future rule changes promulgated by the Commission shall apply  
22 equally to all providers of basic local exchange service.

23 (f) In order to eliminate outdated, unnecessary and burdensome laws and  
24 regulations, electing companies, incumbent local exchange carriers filing  
25 notice pursuant to Section 12, and competing local exchange carriers shall not  
26 be subject to the requirements of Sections 23-2-304(a)(1), 23-2-304(a)(4),  
27 23-2-304(a)(5), 23-2-306, 23-2-307, Sections 23-3-101 through 23-3-107, 23-3-  
28 112, 23-3-114, Sections 23-3-118, 23-3-119(a)(2), 23-3-201, 23-3-206, 23-3-301  
29 through 23-3-316, 23-4-101 through 23-4-104, 23-4-107, 23-4-109, 23-4-110,  
30 23-4-201(d), 23-4-401 through 23-4-405, Sections 23-4-407 through 23-4-419,  
31 23-17-234, or the Commission rules and regulations implementing such statutes.

32 (g) The Commission, except as provided in this Act with respect to  
33 universal services, shall have no jurisdiction to regulate commercial mobile  
34 services or commercial mobile service providers.

35 (h) The Commission shall establish reasonable cost proxies, which rural  
36 telephone companies, excluding Tier One Companies, may use without producing

1 company specific cost studies, when cost studies would otherwise be required.  
2 Use of these proxies or the adoption of approved rates of non rural telephone  
3 companies by rural telephone companies, excluding tier one companies, shall be  
4 deemed adequate proof of such rural telephone company costs.

5 (1) The Commission may reclassify an incumbent local exchange carrier  
6 as a tier one company or a non tier one company only upon petition by the  
7 incumbent local exchange carrier in connection with an increase or decrease in  
8 the number of the carrier's access lines in the state.

9 (1) The unauthorized change of a customer's service to another  
10 telecommunications service provider is prohibited. To protect customers from  
11 any unauthorized changes in their choice of telecommunications service  
12 providers, no local exchange carrier shall honor a request by any person other  
13 than the customer to change the provider of intrastate long distance or local  
14 exchange service to such customer in the state, except: (1) where the  
15 request is placed by a local or long distance company that has provided to the  
16 local exchange carrier a letter of agency containing clear and conspicuous  
17 disclosure of such change signed by the customer authorizing the change; (2)  
18 where the customer affected by the change calls a toll-free number  
19 (established by the company requesting the change) to confirm the request for  
20 change made in response to a contact initiated by the local exchange or long  
21 distance company requesting the change; or (3) where the Commission otherwise  
22 expressly authorizes. Any telecommunications carrier that violates the  
23 verification procedures described in this subsection and collects charges for  
24 telecommunications services from the customer shall be liable to the carrier  
25 previously selected by the customer in an amount equal to all charges paid by  
26 such subscriber after such violation in accordance with such procedures as the  
27 Commission may prescribe. The Commission is also authorized to impose civil  
28 penalties, not to exceed five thousand dollars (\$5,000.00) for any such  
29 violation.

30  
31 SECTION 12. Optional Alternative Regulation of Non Tier One Rural  
32 Telephone Companies.

33 (a) Rural telephone companies, excluding Tier One Companies, that file  
34 notice with the Commission of an election to be regulated in accordance with  
35 the provisions of this Section are authorized to determine and account for  
36 their respective revenues and expenses, including depreciation expenses,

1 pursuant to generally accepted accounting principles, and, except as provided  
2 in this Section, shall be subject to regulation only in accordance with this  
3 Section and shall not be subject to any rate review or rate of return  
4 regulation by the Commission. Such companies shall file rate lists for their  
5 telecommunications services which rates shall be effective upon filing, except  
6 the rates for basic local exchange services and switched access services,  
7 which rates shall be effective upon compliance and in accordance with the  
8 procedures in this Section. Any service that is not a telecommunications  
9 service is not subject to regulation by the Commission, and rates for such  
10 services need not be filed with the Commission.

11 (b) On the effective date of an election pursuant to this Section, the  
12 tariffed rates of a company electing to be subject to the provisions of this  
13 Section are deemed just and reasonable and shall continue to be deemed just  
14 and reasonable as long as any increases in such company's tariffed rates are  
15 in accordance with the provisions of this Section.

16 (c) The company may increase its basic local exchange service rates  
17 after sixty (60) days' notice to all affected subscribers. Rates for basic  
18 local exchange services may be reduced and be effective immediately upon  
19 filing or at such later time specified in such filing. Notice by the company  
20 to its subscribers shall be by regular mail and may be included in regular  
21 subscriber billings and shall include the following:

22 (1) A schedule of the proposed basic local exchange service rate change;

23 (2) The effective date of the proposed basic local exchange service rate  
24 change; and

25 (3) An explanation of the right of the subscriber to petition the  
26 Commission for a public hearing on the rate increase and the procedure  
27 necessary to petition.

28 (d) The subscriber petitions provided for in this Section shall be  
29 prepared as follows:

30 (1) FORM.

31 (A) The petition shall be headed by a caption, which shall contain:

32 (i) The heading, "The Arkansas Public Service Commission"

33 (ii) The name of the company or cooperative seeking a change in  
34 basic local exchange service rates.

35 (iii) The relief sought.

36 (B) A petition substantially in compliance with the form set forth in

1 this subsection shall not be deemed invalid due to minor errors in its form.

2 (2) BODY. The body of the petition shall consist of three numbered  
3 paragraphs, if applicable, as follows:

4 (A) ALLEGATIONS OF FACTS. The allegations of facts shall be stated in  
5 the form of ultimate facts, without unnecessary detail, upon which the right  
6 to relief is based. The allegations shall be stated in numbered subparagraphs  
7 as necessary for clarity.

8 (B) RELIEF SOUGHT. The petition shall contain a brief statement of the  
9 amount of the change in basic local exchange service rates that is objected to  
10 or other relief sought.

11 (C) PETITIONERS. The petition shall contain the name, address, telephone  
12 number, and signature of each subscriber signing the petition. Only the  
13 subscriber in whose name the telephone service is listed shall be counted as a  
14 petitioner. Every signature must be dated and shall have been affixed to the  
15 petition within sixty (60) days preceding its filing with the Commission.

16 (e) Exclusive of basic local exchange service rate changes pursuant to  
17 Section 4, the Commission shall have authority to review basic local exchange  
18 service rates set by the company only upon a formal petition which complies  
19 with subsection (d) of this Section and which is signed by at least fifteen  
20 percent (15%) of all affected subscribers. If a proper petition is presented  
21 to the Commission within sixty (60) days after the date of notice of the rate  
22 change was sent to affected subscribers, the Commission shall accept and file  
23 the petition and, upon reasonable notice, may suspend the rates and charges at  
24 issue during the pendency of the proceedings and reinstate the rates and  
25 charges previously in effect and shall hold and complete a hearing thereon  
26 within ninety (90) days after filing to determine if the rates as proposed are  
27 just and reasonable. The Commission may, within sixty days after close of the  
28 hearing, enter an order adjusting the rates and charges at issue, except that  
29 the Commission may not set any rate or charge below the basic local exchange  
30 service rates in effect at the time the new rate at issue was proposed. A  
31 company subject to this Section shall not increase its rates without the  
32 approval of the Commission for six months after the date the Commission enters  
33 such order. If the Commission fails to enter any order within sixty days  
34 after the close of the hearing, the petition shall be deemed denied and the  
35 rates and charges shall be deemed approved for all purposes, including the  
36 purposes of appeal.

1       (f) Rates for switched access services of companies that are subject to  
2 this Section shall be determined pursuant to Section 7, except as provided in  
3 Section 12(1) and Section 4.

4       (g) A company subject to this Section may at any time file an  
5 application with the Commission requesting the Commission to prescribe just  
6 and reasonable rates for the company. Any rate so set may thereafter be  
7 adjusted as provided in this Section.

8       (h) Nothing herein shall restrict any customer's right to complain to  
9 the Commission regarding quality of service or the Commission's authority to  
10 enforce quality of service rules and standards which are equally imposed on  
11 all telecommunications providers.

12       (i) The Commission may, on its own motion, review basic local exchange  
13 service rates of any company subject to this Section if the company has  
14 increased such rates by more than the greater of fifteen percent (15%) or  
15 \$2.00 per access line per month within any consecutive twelve-month period,  
16 excluding rate increases ordered by the Commission pursuant to Section 4. The  
17 Commission shall hold and complete a hearing on such rates within ninety days  
18 after first giving notice of such hearing to the company to determine if the  
19 rates as proposed are just and reasonable. The Commission may, within sixty  
20 days after close of the hearing, enter an order adjusting the rates and  
21 charges at issue, except that the Commission may not require the company to  
22 set any rate or charge below the greater of the rates in effect at the time of  
23 the filing of the increase or the actual cost of providing such service as  
24 established by evidence received at the hearing. In such order, the  
25 Commission may order a refund of amounts collected in excess of the rates and  
26 charges as approved at the hearing which may be paid as a credit against  
27 billings for future services. If the Commission fails to enter any order  
28 within sixty days after the close of the hearing, the rates and charges shall  
29 be deemed approved for all purposes, including for purposes of appeal.

30       (j) For purposes of this Section, the Commission may not require a  
31 company that is subject to this Section, to set its rates below the actual  
32 cost of the company providing the service. The actual cost shall, if  
33 requested by the company, be determined to include a ratable portion of  
34 administrative expenses and overhead incurred by the company in its operations  
35 and the appropriate amortization of previously deferred accounting costs.

36       (k) No rural telephone company subject to this Section may change its

1 basic local exchange service rates within ninety days after entry of a final  
2 order adjusting such rate pursuant to paragraphs (g) and (i) of this Section.

3 (1) Notwithstanding the provisions of this Section, if, at any time  
4 following the three year anniversary of the notice provided under this  
5 Section, another telecommunications provider is providing basic local exchange  
6 service or switched access service within a local exchange area of the company  
7 subject to this Section, the company that is subject to this Section, may  
8 determine its rates for basic local exchange service and switched access  
9 service within any exchange in which another telecommunications provider is  
10 providing these services, in the same manner that it determines its rates for  
11 other services pursuant to Section 12(a).

12 (m) A rural telephone company electing to be regulated in accordance  
13 with this Section may package any of its services with any other service it or  
14 its affiliates offer, with or without a discount, provided that basic local  
15 exchange services and switched access services may be purchased separately at  
16 the rates which are established in accordance with this Section.

17  
18 SECTION 13. (a) Arkansas Code 23-17-227(d) is repealed.

19 ~~(d)(1) The commission, in granting any certificate, may allocate areas~~  
20 ~~between telecommunications companies and cooperatives and charge them with the~~  
21 ~~responsibility of furnishing telecommunications service in the respective~~  
22 ~~areas so allocated.~~

23 ~~(2) No area then being furnished with reasonably adequate~~  
24 ~~telecommunications service by a telecommunications company or a cooperative~~  
25 ~~shall be assigned to another cooperative or telecommunications company.~~

26 (b) All laws and parts of laws in conflict with this act are hereby  
27 repealed.

28  
29 SECTION 14. If any provision of this Act or the application thereof to  
30 any person or circumstance is held invalid, such invalidity shall not affect  
31 other provisions or applications of this Act which can be given effect without  
32 the invalid provision or application, and to this end the provisions of this  
33 Act are declared to be severable.

34  
35 SECTION 15. All provisions of this Act of a general and permanent nature  
36 are amendatory to the Arkansas Code of 1987 Annotated, and the Arkansas Code

1 Revision shall incorporate the same in the Code.

2

3       SECTION 16. EMERGENCY. It is hereby found and determined by the Eighty-  
4 first General Assembly that: (I) It is in the public interest to maintain and  
5 preserve the commitment of universal availability of reasonably affordable  
6 telecommunications services; (II) Competition and growth in the  
7 telecommunications industry are affected by demographics and population  
8 density. Therefore, telecommunications providers serving high-cost rural areas  
9 often have needs that are different from those of telecommunications providers  
10 serving only urban areas. Accordingly, the regulatory framework established by  
11 this Act seeks to recognize and accommodate the unique factors faced by  
12 telecommunications companies serving high-cost rural areas in addition to  
13 providing all local exchange carriers with additional regulatory options to  
14 assist them in providing telecommunications services and technological  
15 advances to their customers; and, (III) It is essential that the State of  
16 Arkansas immediately revise its existing regulatory regime for the  
17 telecommunications industry to ensure that it is consistent with and  
18 complementary to the Federal Telecommunications Act of 1996. Therefore an  
19 emergency is declared to exist; and this act being immediately necessary for  
20 the preservation of the public peace, health and safety shall become effective  
21 on the date of its approval by the Governor. If the bill is neither approved  
22 nor vetoed by the Governor, it shall become effective on the expiration of the  
23 period of time during which the Governor may veto the bill. If the bill is  
24 vetoed by the Governor and the veto is overridden, it shall become effective  
25 on the date the last house overrides the veto.

26

27

*/s/ Hopkins et al*

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## CERTIFICATE OF SERVICE

I, Mel Farrington, do hereby certify that copies of the foregoing Petition for Declaratory Ruling were sent via first class mail to the following on June 3, 1997.

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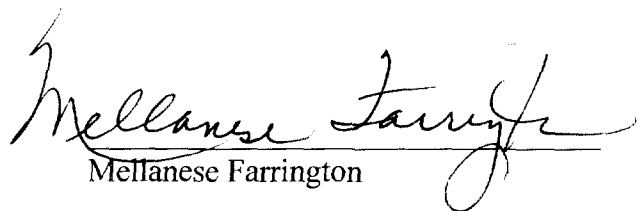
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